

Internal Revenue Service

Department of the Treasury

Washington, DC 20224

Person to Contact: [REDACTED]

Telephone Number: [REDACTED]

Refer Reply to: [REDACTED]

Date: 3-31-95

NO PROTEST RECEIVED
Release copies to District

Date 6/6/95

Employer Identification Number: [REDACTED]

Key District: [REDACTED]

Surname [REDACTED]

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Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3). Based on the information submitted, we have concluded that you do not qualify for exemption under that section. The basis for our conclusion is set forth below.

The information submitted indicates that you were incorporated as a non-profit corporation on [REDACTED] to "promote the empowerment of small businesses through networking, exchange of ideas and information and to serve as mentors to disadvantaged or risk youth." You describe your organization as educational, with a target audience of small business owners, jobless, disadvantaged/minority owners.

You provide a means for small businesses to network. Your organization assists members to promote their goods and services to other businesses, contractors and government purchasing officers. You also state that you assist disadvantaged youths in finding jobs. However, to date, you have only assisted three people, including a relative of your founder, to find part-time jobs.

You conducted various seminars in [REDACTED] covering such topics as government contracts, ethics in the workplace, credit repair and saving money on long distance in the workplace. You conducted no seminars in [REDACTED].

You indicated that you plan to conduct four fundraisers annually. The proposed fundraisers for [REDACTED] included a seminar hosted by [REDACTED] on winning contracts and one on export/import opportunities.

[REDACTED], your founder/chairman, also runs [REDACTED], a for-profit organization which assists other companies and non-profits with informational services, pre-employment training and business consulting. Lecturers for at least two of the seminars conducted by your organization in [REDACTED] were employees of [REDACTED].

You have an eight person board of directors. Your founder is the president/chairman of this board. Membership in the organization is open to all who pay dues. You currently have [REDACTED] members. Non-members may attend meetings.

Section 501(a) of the Code provides an exemption from federal income tax for organizations described in section 501(c)(3) of the Code.

Section 501(c)(3) of the Code provides for the exemption from federal income tax of organizations organized and operated exclusively for educational purposes as long as, among other conditions, no part of the net earnings inure to the benefit of any private individuals or shareholders.

Section 1.501(c)(3)-1(a) of the Income Tax Regulations states, in part, that if an organization fails to meet either the organizational test or the operational test, it is not exempt.

Section 1.501(c)(3)-1(b)(4) of the regulations states, in part, that an organization is not organized exclusively for exempt purposes unless its activities are dedicated to an exempt purposes.

Section 1.501(c)(3)-1(c)(1) of the regulations states, in part, that an organization will not be operated exclusively for exempt purposes if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1(c)(2) of the regulations states, in part, that an organization is not operated exclusively for exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals.

Section 1.501(a)-1(c) of the regulations states, in part, that the words "private shareholders" refer to persons having a personal and private interest in the activities of the organization.

Section 1.501(c)(3)-1(c)(4)(ii) of the regulations provides that an organization is not organized exclusively for exempt purposes unless upon dissolution remaining assets of the organization shall be distributed for one or more exempt purposes

[REDACTED]

within the meaning of section 501(c)(3) of the Code, or shall be distributed to the Federal government, or to a state or local government, for public purposes.

Section 1.501(c)(3)-1(d)(1)(ii) of the regulations, in part, states that an organization is not organized or operated for exempt purposes unless it serves a public rather than a private interest. To meet this requirement it is necessary that the organization establish that it is not organized or operated for the benefit of private interests such as designated individuals, the creator or his family, or shareholders of the organization.

Section 1.501(c)(3)-1(d)(3) of the regulations defines educational as

- (a) The instruction or training of the individual for the purpose of improving or developing his capabilities; or
- (b) The instruction of the public on subjects useful to the individual and beneficial to the community.

In Better Business Bureau of Washington, DC v. United States, 326 U.S. 279 (1945) it was held that the presence of a single non exempt purpose if substantial in nature, will preclude exemption under section 501(c)(3) of the Code, regardless of the number or importance of statutorily exempt purposes.

Your organization primarily benefits your members by allowing them to promote their goods and services to other businesses and contractors. In addition, you have not adequately distinguished the activities of your organization from the activities of your founder's organization, [REDACTED]. You appear to be operating for the private benefit of your founder.

You have not shown a significant educational purpose to your activities. Members receive networking opportunities, rather than instruction. You have not shown that your activities instruct the public on subjects useful to the individual and beneficial to the community.

Moreover, in order to qualify under section 501(c)(3) of the Code, an organization must be "organized" exclusively for one or purposes specified in that section. If the organization fails to meet the organizational test, it is not exempt. The organizational test relates to the rules for governing an organization and the purposes stated in its articles of incorporation.

Your purposes, as stated in your Articles, are broader than section 501(c)(3) purposes. In addition, you have not provided

[REDACTED]

for the distribution of assets upon dissolution in accordance with an exempt or public purpose. Therefore, you do not meet the organizational requirements of section 501(c)(3).

Accordingly, you do not qualify for exemption as an organization described in section 501(c)(3) of the Code and you must file federal income tax returns.

Contributions to you are not deductible under section 170 of the Code.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If you do not protest this ruling in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Code provides, in part, that a declaratory judgement or decree under this section shall not be issued in any proceeding unless the Tax Court, the United States Court of Federal Claims, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key district office. Thereafter, any questions about your federal income tax status should be addressed to that office. The appropriate State Officials will be notified of this action in accordance with Code section 6104(c).

When sending additional letters to us with respect to this case, you will expedite their receipt by using the following address:

Internal Revenue Service
Attn: [REDACTED]
1111 Constitution Ave, N.W.
Washington, D.C. 20224

[REDACTED]

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

[REDACTED]
Chief, Exempt Organizations
Technical Branch 2